



# Anheuser-Busch InBev NV (BUD)

Updated October 28<sup>th</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$74	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Volatility Percentile:</b>	42.7%
<b>Fair Value Price:</b>	\$82	<b>5 Year Growth Estimate:</b>	6.5%	<b>Momentum Percentile:</b>	3.5%
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.1%	<b>Growth Percentile:</b>	58.3%
<b>Dividend Yield:</b>	4.5%	<b>5 Year Price Target</b>	\$113	<b>Valuation Percentile:</b>	63.6%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	82.0%

## Overview & Current Events

Anheuser-Busch InBev traces its roots back to the mid-1800's when Eberhard Anheuser bought a brewery in St. Louis. The Busch family shortly thereafter joined Anheuser in the business and the sprawling beverage conglomerate we know today was born. The company's merger with InBev nearly a decade ago gave it reach and scale unlike any other brewer in the world and today, the company enjoys \$55 billion in annual revenue and a market capitalization of \$146 billion. AB-InBev reported Q3 earnings on 10/25/18 and results were not taken well by investors, sending the stock to new 52-week lows. Total revenue grew 4.5% as revenue per hectoliter rose 4.2% and volume added the balance. The company continued its strength with its global brands, which added 7.7% in revenue and 10.6% outside of their respective home markets. EBITDA margin expanded 116bps to 40.3% but adjusted earnings-per-share fell fractionally to \$1.16. Cost of sales grew more than 6%, offsetting pricing gains and thus, sent earnings lower. As a result of Q3 earnings, we've slightly lowered our estimate for 2018 to \$4.30 in earnings-per-share. In addition, we've lowered our dividend estimates for 2018 and beyond as AB-InBev recently declared a much lower dividend for the second half of this year than in 2017.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	--	\$2.90	\$2.50	\$3.63	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	<b>\$4.30</b>	<b>\$5.90</b>
<b>DPS</b>	--	--	\$0.50	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.33	<b>\$3.30</b>	<b>\$4.50</b>
<b>Shares</b>	--	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	<b>2,020</b>	<b>2,020</b>

AB-InBev's earnings-per-share history is spotty given that it has been in merger integration mode for the past two years. Prior to that, the company was a respectable growth story and we believe that is how it will perform again. Merger synergies are pegged at \$3 billion annually by management so there is still significant opportunity for margin expansion, as we saw in Q3. Therefore, we continue to expect 6.5% average annual earnings-per-share growth going forward.

AB-InBev will achieve this result via a low single digit tailwind to revenue as well as the cost synergies mentioned above. The company continues to use its enormous, global reach to take brands that are successful in their home markets and distribute them to customers across the world, as it did again in Q3. This is a core competitive advantage AB-InBev has because no other beer distributor has comparable supply chain capabilities. We also see margin expansion as a key driver of earnings-per-share growth going forward as SABMiller becomes fully integrated in the coming years. However, a key risk remains commodity inflation as AB-InBev suffered during Q3 from this.

The company's dividend is irregular in that it is paid twice a year and has not been increased in a linear fashion. We forecast \$4.60 in dividends this year with increases to more than \$5 by 2023 as AB-InBev continues to pay out most of its earnings to shareholders. These estimates are subject to significant variability given the unusual dividend policy.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	---	15.8	21.3	15.7	17.2	20.0	19.6	24.2	---	36.2	<b>17.2</b>	<b>19.1</b>
<b>Avg. Yld.</b>	---	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	<b>4.5%</b>	<b>4.0%</b>

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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AB-InBev's price-to-earnings multiple has moved around quite a bit since the merger and today, it sits at 17.2. We see fair value as closer to its normalized historical average of 19.1 and thus, we think the stock will experience a modest 2.1% tailwind to total returns as its price-to-earnings multiple moderates over time. The current yield is high by historical standards and we think it will come down slightly over time as the valuation returns to normal.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	62.1%	60.9%	59.5%	60.1%	59.3%	58.7%	57.5%	55.5%	53.2%	56.0%	<b>56.0%</b>	<b>56.0%</b>
Debt/A	79%	71%	66%	63%	63%	61%	62%	68%	68%	67%	<b>67%</b>	<b>65%</b>
Int. Cov.	3.6	2.8	2.9	4.0	6.4	9.6	7.7	6.0	1.2	3.1	<b>3.2</b>	<b>4.0</b>
Payout	--	--	48%	53%	50%	79%	80%	96%	--	137%	<b>77%</b>	<b>76%</b>
Std. Dev.	--	--	20.9%	18.1%	19.0%	14.9%	15.2%	19.9%	20.9%	15.0%	<b>16.0%</b>	<b>18.0%</b>

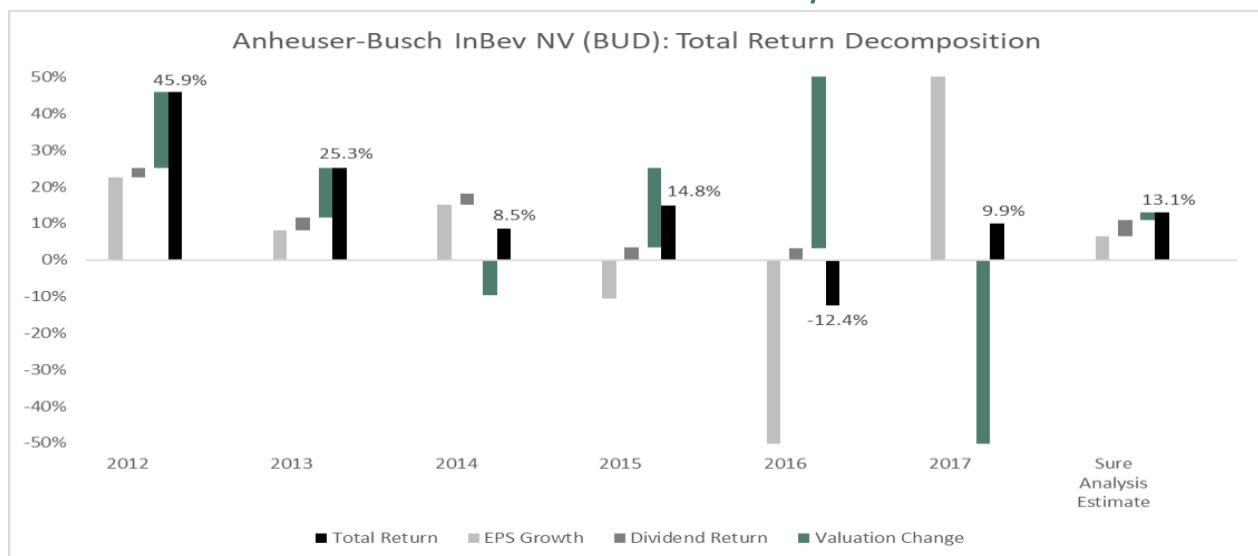
AB-InBev's quality metrics have moved around some over time but overall, it is in strong shape financially. Gross margins have been roughly flat for years and we do not see that changing, although operating margins should improve due to cost synergies, helping to offset commodity inflation. Debt is reasonable at two-thirds of assets and that should come down slightly over time given that it recently increased its debt total and thus, should not need to do so again. We see the payout ratio as remaining at 80%+ longer term as management continues to make the dividend a top priority.

AB-InBev's competitive advantages include its world-class suite of brands as well as the global supply chain it enjoys; this gives it reach and capacity unlike any other brewer in the world. It is also fairly recession-resistant, so shareholders need not fear an economic downturn. Indeed, any such event would likely be a strong buying chance.

## Final Thoughts & Recommendation

AB-InBev looks to be on the cusp of meaningful earnings-per-share growth in the coming years thanks to the fact that it is done divesting assets per regulatory concerns and that it is beginning to realize some cost synergies. We see total annual returns going forward of 14.8%, consisting of the current 6.2% yield, 6.5% earnings-per-share growth and a 2.1% tailwind from the normalizing valuation. After the recent selloff, we've boosted our recommendation to a buy given the stock is near its lows, it offers a 6%+ yield and the pieces are in place for future growth.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	23507	36758	36297	39046	39758	43195	47063	43064	45517	56444
<b>Gross Profit</b>	13171	19560	20146	22436	23336	25601	28307	25927	27714	35058
<b>Gross Margin</b>	56%	53%	56%	57%	59%	59%	60%	60%	61%	62%
<b>SG&amp;A Exp.</b>	7713	9973	9585	10505	11241	12558	14385	13732	15171	18099
<b>D&amp;A Exp.</b>	N/A	N/A	2788	2783	2747	2985	3353	3153	3477	4276
<b>Operating Profit</b>	5797	11722	11016	12545	12682	14124	15269	13146	13168	17591
<b>Op. Margin</b>	24.7%	31.9%	30.3%	32.1%	31.9%	32.7%	32.4%	30.5%	28.9%	31.2%
<b>Net Profit</b>	1927	4613	4026	5779	7160	14394	9218	7732	1240	7995
<b>Net Margin</b>	8.2%	12.5%	11.1%	14.8%	18.0%	33.3%	19.6%	18.0%	2.7%	14.2%
<b>Free Cash Flow</b>	2881	7411	7561	9110	10004	9995	9749	9372	5131	10689
<b>Income Tax</b>	674	1786	1920	1826	1680	2016	2499	2594	1613	1920

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	113.75	112.53	114.34	112.43	122.62	141.67	142.55	134.64	258.38	246.13
<b>Cash &amp; Equivalents</b>	2936	3689	4511	5320	7051	9839	8357	6923	8579	10472
<b>Acc. Receivable</b>	4126	4099	4638	4121	2736	2935	3363	3241	4562	4752
<b>Inventories</b>	2868	2354	2409	2466	2461	2872	2888	2759	3824	4018
<b>Goodwill &amp; Int.</b>	73.88	75.29	75.86	75.12	76.14	99.26	100.68	94.74	181.10	186.81
<b>Total Liab. (\$B)</b>	89.32	79.35	75.54	71.37	77.17	86.36	88.29	88.92	176.96	165.91
<b>Accounts Payable</b>	10238	11377	12071	13337	8476	9834	10913	11616	14071	15240
<b>LT Debt (\$B)</b>	61.87	51.07	44.89	40.17	44.20	48.99	50.99	49.34	122.51	116.29
<b>Total Equity</b>	22442	30318	35259	37504	41154	50365	49972	42137	71339	72585
<b>D/E Ratio</b>	2.76	1.68	1.27	1.07	1.07	0.97	1.02	1.17	1.72	1.60

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	2.5%	4.1%	3.5%	5.1%	6.1%	10.9%	6.5%	5.6%	0.6%	3.2%
<b>Return on Equity</b>	9.1%	17.5%	12.3%	15.9%	18.2%	31.5%	18.4%	16.8%	2.2%	11.1%
<b>ROIC</b>	3.3%	5.4%	4.8%	7.0%	8.4%	14.8%	8.8%	7.7%	0.8%	4.0%
<b>Shares Out.</b>	N/A	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019
<b>Revenue/Share</b>	23.51	23.07	22.53	24.19	24.42	26.18	28.27	25.82	25.94	28.08
<b>FCF/Share</b>	2.88	4.65	4.69	5.64	6.15	6.06	5.86	5.62	2.92	5.32

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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